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Central Intelligence Bulletin

CONTENTS

VIETNAM: Situation report. (Page 1)



25X6

GHANA: Government assumes majority ownership of foreign mining and lumber companies. (Page 5)

MALAGASY REPUBLIC: New government ends cooperation with South Africa. (Page 6)

INTERNATIONAL MONETARY DEVELOPMENTS: EC support of Smithsonian pact to be tested (Page 7)

AUSTRALIA - NEW ZEALAND: Meat import quota (Page 7)

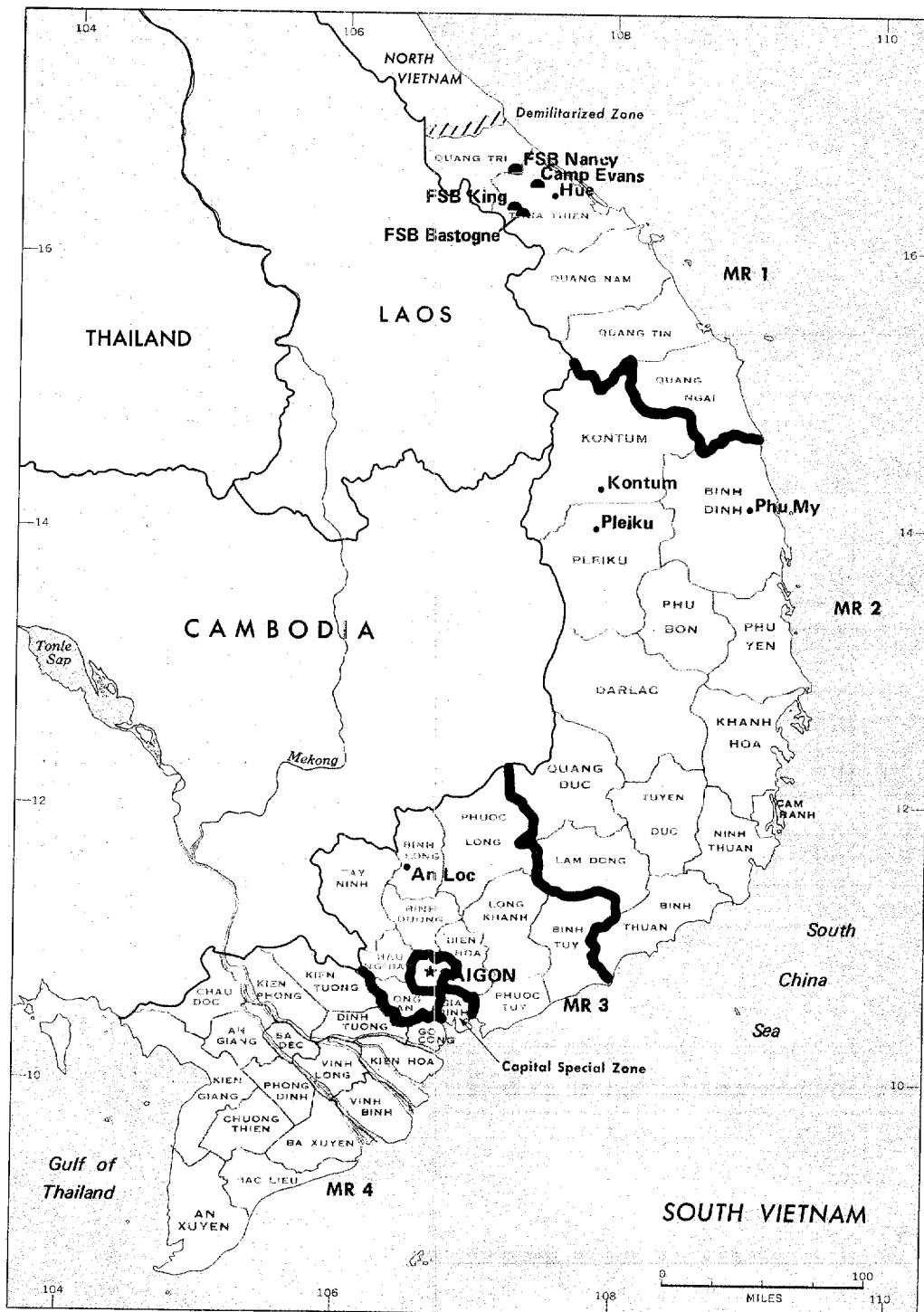
ARGENTINA: Student disorders (Page 8)

PAKISTAN: Budget (Page 8)

INDIA-PAKISTAN--A Review of Summit Prospects (Page 9)

SECRET

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SECRET

VIETNAM: Soviet party boss Brezhnev, speaking at a reception yesterday for visiting Cuban Premier Castro, has again criticized recent US actions against North Vietnam. Brezhnev said, "we resolutely condemn the American aggression and the measures undertaken lately by the US to blockade DRV ports, to intensify bombing of economic objectives, transport routes, and populated localities." Brezhnev also called for a full withdrawal of US troops from South Vietnam and the attainment of a just political settlement without outside interference.

This most recent statement by the Soviets is somewhat harsher than any issued since President Nixon's visit to Moscow. The move was probably spurred by the presence of Castro, who has been critical of Moscow's restrained response to the latest US actions in Indochina. It also affords the Soviets an opportunity to shore up their position with the North Vietnamese, who have chastized Moscow in recent weeks.

* * * *

On the military side, Communist forces have stepped up their attacks against government positions in northern Military Region (MR) 1, but elsewhere in the country action is light.

Enemy units have launched heavy ground and artillery attacks against South Vietnamese Airborne units near Fire Support Base Nancy in southern Quang Tri Province and against Camp Evans in northern Thua Thien Province. Similar action was also reported southwest of Hue against government troops at Fire Support Bases King and Bastogne. Field reports indicate that South Vietnamese forces are giving a good account of themselves and that there have been no serious breaches in government defenses. Some of the airborne units, however, are

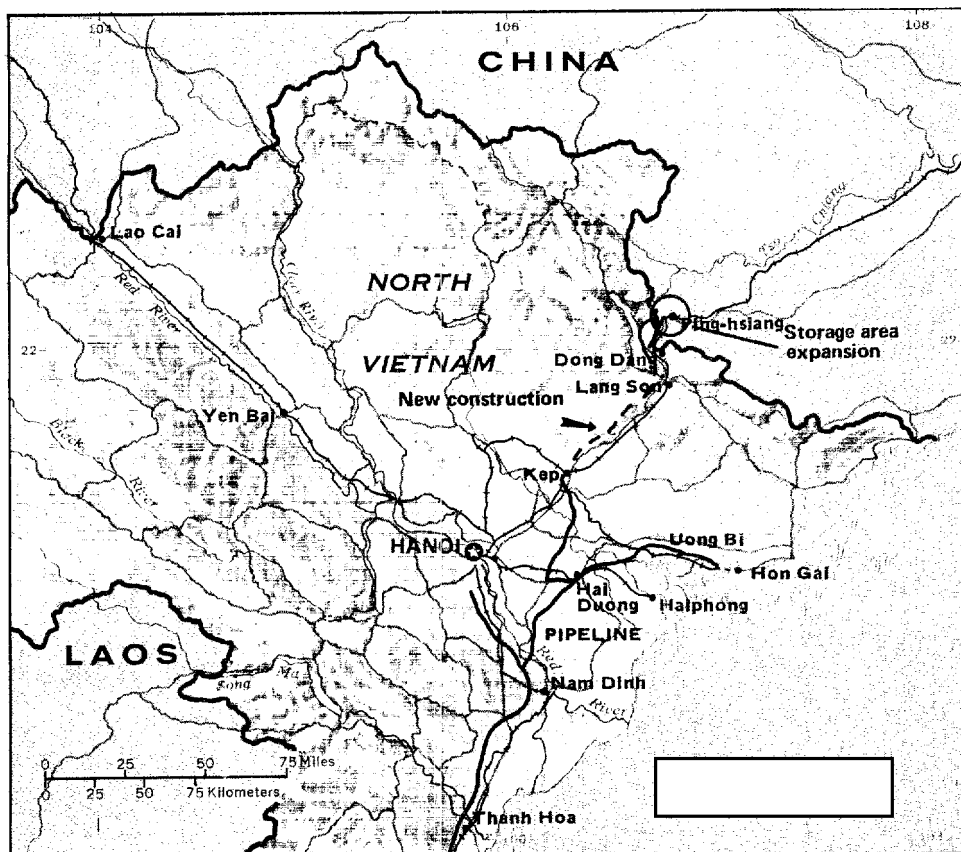
28 Jun 72

Central Intelligence Bulletin

1

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SECRET



553287 6-72 CIA

25X1

SECRET

SECRET

(said to be starting to feel the strain of the enemy's repeated attacks against their positions northwest of Hue.

Elsewhere, Communist units in the western highlands are keeping Route 14 from Pleiku to Kontum cities blocked, while on the coast in Binh Dinh Province, enemy units are maintaining pressure against government forces around Phu My District town. In the southern half of the country, enemy shellings against An Loc continue at the accelerated pace of the past weekend, and skirmishes have occurred on the outskirts of town and along Route 13 to the south.

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Photography of 22 June shows that the North Vietnamese are rapidly completing their petroleum pipeline link with China. Some 41 additional miles of pipeline have been constructed since 14 June between Dong Dang and Kep, where it joins the line extending north from Hai Duong.

When the new system is fully operational, petroleum supplies unloaded at the recently expanded Ping-hsiang petroleum storage area in China will flow directly into North Vietnam. This new system will thus give the North Vietnamese a complete pipeline link from China through North Vietnam to the DMZ and southern Laos. [REDACTED]

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GHANA: In the latest manifestation of increasing economic nationalism, Accra has announced it will assume majority ownership of seven foreign mining and lumber companies.

Representatives of the primarily British-owned companies were notified last week of the government's intention to take over 55-percent ownership of their firms. The government plans to take 25 percent of the companies' shares outright and to pay for the additional 30 percent out of future dividends. The action would give the Ghanaian Government controlling interest in diamond, manganese, gold, and bauxite mining, and timber operations in Ghana. Two US firms have considerable equity in the manganese and bauxite operations. There has been no sign that the largest single US investment in Ghana, a wholly owned aluminum company, or any other non-extractive US business interest will be selected for similar treatment.

In response to a strong protest from London, Accra has indicated that the terms of the Ghanaization are negotiable. Without negotiations Ghana faces the loss of sizable potential foreign investment in its extractive industries, such as the long-considered project to build an alumina plant to process Ghana's bauxite ore. [REDACTED]

25X1

25X1

28 Jun 72

Central Intelligence Bulletin

5

SECRET

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MALAGASY REPUBLIC: General Ramanantsoa's government is abandoning President Tsiranana's policy of cooperation with South Africa.

At a recent press conference, Foreign Minister Ratsiraka announced that Madagascar would no longer support dialogue with Pretoria and would cancel contracts with South African business interests financing the development of the island's tourist industry. Ratsiraka said Madagascar, which has previously remained aloof from serious involvement in African affairs, would seek closer cooperation with its partners in the Organization of African Unity (OAU). At the recent OAU conference in Rabat, Ratsiraka announced that his government would pay its arrears to the African liberation fund.

The Malagasy, who do not consider themselves African, had generally accepted Tsiranana's policy of supporting dialogue and strengthening economic ties with South Africa while officially opposing apartheid. The student-worker coalition that brought Ramanantsoa to power had not demanded the change. The new policy, however, will strengthen the government's support among many educated Malagasy and the small number of leftist politicians who in the past criticized cooperation with South Africa. It is also another reflection of the government's desire to depart from policies closely identified with Tsiranana.

25X1

28 Jun 72

Central Intelligence Bulletin

6

SECRET

SECRET

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INTERNATIONAL MONETARY DEVELOPMENTS: The agreement by the EC finance ministers to defend the Smithsonian agreement will be tested today as foreign exchange markets in the EC countries open for the first time since Thursday. The EC finance ministers apparently feel that the existing exchange rates can be defended. Central bank intervention, however, will be necessary if heavy dollar inflows materialize. The Swiss have introduced measures to prohibit most inflows of foreign long-term capital and may impose additional restrictions. It is unclear whether the Swiss central bank will support the present exchange rates. In the London market, which opened yesterday, sterling depreciated about four percent from the pre-float central rate in heavy trading, while the dollar declined somewhat. [REDACTED]

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AUSTRALIA - NEW ZEALAND: As a result of Washington's decision to lift all US meat import curbs for the rest of this year, Australia and New Zealand probably will increase pressure on the US to raise substantially the meat import quota for 1973 or lift it permanently. Both countries, which together account for about 70 percent of US meat imports under the quota system, have been arguing for years that the US market can absorb far greater amounts of beef and veal than is currently allowed. The recent attention focused on high US beef prices will fuel their argument. Since Australia and New Zealand will not be able to increase production substantially in the next six months, they probably will be unwilling to divert meat from other countries without assurance of a continuing enlarged US market. [REDACTED]

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28 Jun 72

Central Intelligence Bulletin

7

SECRET

~~SECRET~~

ARGENTINA: President Lanusse has ordered troops into several provincial cities to put down student disorders. The death of a student during the six days of rioting in Tucuman apparently provided the pretext for youth to take to the streets in such major provincial cities as Cordoba, Mendoza, and Salta. One national student federation is now calling for simultaneous demonstrations in the major cities of Argentina today, but the greatest danger lies in the possibility that provincial labor groups, fed up with high inflation and growing unemployment, will join the fray. In ordering the military to avoid "indiscriminate repression," President Lanusse said those trying to provoke the armed forces to take a hard line as a means of frustrating the electoral process "will not succeed." [REDACTED]

25X1

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PAKISTAN: President Bhutto apparently intends to maintain the defense budget at last year's high level pending the results of his talks with Mrs. Gandhi. The same amount of rupees, however, will buy less military hardware abroad because of the recent devaluation. Despite the highly publicized socioeconomic reforms, the new allocations for public works, low cost housing, transportation, and communication projects in the development budget are nominal. Pakistan has increased its development spending in recent years through greater reliance on external assistance, and the current budget calls for external resources to finance over three fourths of development expenditures. [REDACTED]

25X1

28 Jun 72

Central Intelligence Bulletin

8

SECRET

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The summit meeting between Indian Prime Minister Gandhi and Pakistani President Bhutto, which begins today, is unlikely to settle permanently the major issues between the two nations. It may, nonetheless, lead to agreement on less important questions, which could permit further negotiations on the primary problems.

The prospects for a successful summit hinge primarily on the ability of Mrs. Gandhi and Bhutto to establish a good working relationship. Their principal emissaries at the pre-summit talks in Pakistan last April established a reasonable rapport, and a generally optimistic atmosphere prevailed in the immediate period after those talks. As the weeks wore on, however, old doubts resurfaced and both leaders, in actions and statements designed to shore up foreign and domestic support, managed to rekindle the basic distrust that has consistently marked Indo-Pakistani relations. Mrs. Gandhi and Bhutto could again reverse this trend. Both leaders appreciate that their nations' underdeveloped economies would benefit from an understanding that would, among other things, allow an eventual reduction in defense spending.

Neither side has taken an inflexible position on the status of Kashmir, potentially the most troublesome bilateral problem. An agreement on a permanent international boundary in Kashmir more or less along the present cease-fire line would be a major step in ending the 25-year-old controversy. Bhutto, however, is unlikely to agree to this, at least formally. New Delhi will still probably try to include a permanent boundary in Kashmir as part of a package deal to "end the confrontation," to settle issues outstanding from the 14-day war, and to return diplomatic relations between all parties on the subcontinent to a more normal state. In the

28 Jun 72

Central Intelligence Bulletin

9

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likely absence of so dramatic--and for Pakistan so traumatic--an outcome, the two sides might issue a general declaration of intent to settle all future disputes peacefully.

The demands of Bengali Prime Minister Mujibur Rahman, who reportedly will not be present at the talks, may prove to be a major stumbling block. Mujib continues to insist that Bhutto extend formal recognition to Bangladesh before he will meet with him to discuss repatriating Pakistani POWs held in India. The Indians, meanwhile, say they cannot release these prisoners without Mujib's consent because they surrendered last December to a joint Indian-Bengali command. Bhutto, in turn, while warning that failure to make progress toward the prisoners' release would almost certainly make the summit an ineffective exercise, says he cannot recognize Bangladesh until he first has an opportunity to meet with Mujib.

Bengali insistence that as many as 1,500 Pakistani prisoners be tried for war crimes may be a critical issue. Some Indian officials have implied that were it not for obligations derived from the fact that they fought the war in partnership with the Bengalis, New Delhi would be amenable to some formula for salvaging Pakistani honor by trying only the worst offenders simply as common criminals and repatriating the rest. For the present, however, New Delhi has not consented openly to intercede on Pakistan's behalf on this or any other prisoner-related issue with the leaders of Bangladesh. There is tenuous evidence, however, that the Indians may have tried to exert some quiet pressure in Dacca on this issue, and Bangladesh may be willing to negotiate its demands after Pakistani recognition.

For Bhutto, who will have to make major concessions if the summit is to succeed, the outward appearance of any settlement will be almost as

28 Jun 72

Central Intelligence Bulletin

10

~~SECRET~~

SECRET

important as the substance. His ability to accept Indian terms is circumscribed by his need to retain domestic support in Pakistan. For Mrs. Gandhi, who must be convinced that Bhutto will be able to deliver on promises made, a disposition to accept private assurances regarding future actions and plans from Bhutto, as well as a favorable assessment of his durability in his present office, will perhaps be the primary factors in determining how far India will go. In the final analysis, much will depend on Indian willingness to be the magnanimous victor.

Should, as appears likely, a stalemate develop over the major issues--the prisoners of war and Kashmir--the two leaders, fearful of the consequences of a breakdown in the conference, may decide to settle for agreement on less controversial questions. The re-establishment of diplomatic relations and the reactivation of communication and transportation links have been mentioned. Even relatively modest progress on such issues could be enough to allow time for further quiet diplomatic exploration and negotiations, and even subsequent summit meetings.

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25X1

28 Jun 72

Central Intelligence Bulletin

11

SECRET

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